***Brian Smith Advisory Services Limited***

***Public Sector Financial and Management Services***

3 Hossack Close, Christchurch 8051

T (03) 3236-335 M (027) 440-3001 E Mail briansmithadvisory@xtra.co.nz

26 November 2013

Mr Donald Riezebos

Chief Executive

Local Government Commission

P O Box 5362

WELLINGTON 6145

Dear Donald

**REPORT ON FINANCIAL AND SERVICE METRICS OF THE NINE WELLINGTON COUNCILS**

***Introduction***

Further to recent discussions with Don Mackay I have now undertaken an analysis of the existing public financial and service performance information of the nine Wellington councils as part of the Commission’s assessment of the potential reorganisation of local government in the Wellington Region.

This report is in a similar format as that undertaken by me for the Northland and Hawke’s Bay councils.

***Methodology***

The following methodology was applied;

* The financial/economic metrics used were the financial performance indicators listed on page 3 (Step 2) of the Commission’s assessment framework;
* The metrics were applied to all nine councils
* The analysis was entirely desk top using the publicly available annual plans, annual reports, pre election reports and the 2012-22 LTPs of the respective councils.
* No contact has been made with Council officers in preparing this analysis other than to enquire on the expected availability of information

***Format of Report***

The information for each Council is set out on the attached pages.

As an indicator of whether there are potential or existing financial issues I have used ‘traffic lights’;

Indicates no issues or concerns from the data reviewed

Indicates some concern or issues from the data reviewed

Flags concerns or potential issues that might need further analysis

The format of the report is as follows***;***

* **Schedule 1** – graphs and information on Council debt as at 30 June 2012 and predicted debt at 30 June 2022
* **Schedule 2** – Financial assets of Councils as at 30 June 2013
* **Schedule 3** - Physical assets of Councils as at 30 June 2013
* **Schedule 4**  – Elected members and CEO remuneration of Councils for the 2012-13 year
* **Schedule 5** – Audit Fees for the audit of the Councils 2012-13 Annual Reports and the 2012-22 LTPs

Following this is a 3-4 page analysis of each Council (in alphabetical order). The analysis covers;

* Key elements of the council’s financial strategy (from the 2012-22 LTPs)
* CEO updates in the 2013 pre-election reports
* Good financial ‘housekeeping’ in the current years and the predicted 2012-22 LTP period
* Investment in financial and physical assets (also graphed in Schedules 2 and 3)
* Predicted re-investment in physical assets for 2012-22 (Asset Sustainability Ratio)
* Predictions for 2012-22 for rates and other funding sources
* Borrowing predictions and the ability to fund debt
* Major identified projects
* Specific expenditure items (also graphed in Schedules 4 and 5)
* Statement of service performance
* Summary comments

***Next Steps***

This report is primarily to give you a ‘heads up’ on current and long term finances of each Council in comparison to the benchmarks/criteria we have developed. It also provides an overview of service performance measures and targets.

I am happy to elaborate on the information in this report or answer any queries you may have.

It may be fruitful to have combined discussion with Commission officers, Brian Sharplin from MWH and me to talk through key points and issues.

At this stage no work has been started on an analysis of corporate and overhead costs as has been done in Northland and Hawke’s Bay. The logistics of this could also be discussed.

Yours faithfully



Brian Smith

Brian Smith Advisory Services

**Schedule 1**

**Wellington Councils Debt Profile**

**Figure 1 - Debt as at 30 June 2012 (taken from Annual Reports) $ Millions**

**Figure 2 - Forecast Debt at 30 June 2022 (from 2012-22 LTPs) - $Millions**

**Schedule 2**

**Wellington Councils Financial Assets Profile**

**Figure 3 – Financial Assets as at 30 June 2013 ($m)**

Total Financial Assets -$563miliion

Financial assets comprise cash and bank deposits, investments (including investment property), forestry, investments in subsidiaries and associates.

**Schedule 3**

**Wellington Councils – Investment in Physical Assets**

**Figure 4 – Investment in Physical Assets at 30 June 2013 ($m)**

Total physical assets - $12.6billion

Physical assets are, in accounting terms, referred to as “Plant, property and equipment”. This figure includes infrastructure assets, operational assets and capital work in progress. It excludes investment property.

The above figures are the “carrying value” of the assets which is the Depreciated Replacement Value (DRC)

**Schedule 4**

**Wellington Councils – Elected Members and CEO Remuneration Profile**

**Figure 5 - Elected Members (including Mayor/Chair) Remuneration 2012-13 ($000s)**

Total 2012-13 remuneration - $5.3million

**Figure 6 – CEO Remuneration 2012-13 ($000s)**

Total Remuneration 2012-13 - $2.6million

**Schedule 5**

**Audit Fees**

**Figure 7 – Audit Fees for the audit of the 2012-13 Annual Report ($000s)**

**Figure 8 Audit Fees for the audit of the 2012-22 Long Term Plans (000s)**

Total Fees - $863k

**Carterton District Council (CDC) – Overview**

|  |  |  |
| --- | --- | --- |
| ***Aspect Reviewed*** | ***Comments*** | ***Indicator*** |
| CDC’s Financial Strategy in the 2012- 22 LTP | The major elements of CDC’s financial strategy are;   * Being good stewards and to “be fair” to ratepayers and customers * Spread the costs of assets over their useful lives * Maintain service delivery * “Business as usual” except for accelerated programme of sewer main renewals, sewage treatment and development of the town centre * Fully fund the depreciation except for selected assets – elderly persons housing, some roads and footpaths, events centre and planned sewerage renewals * Keep rates to within the BERL cost movement plus 2% |  |
| Pre-election report update | The pre election report by the CEO largely repeats the information in the 2012-22 LTP. It was also stated that   * There will be significant capital works carried forward from 2012-13 to 2013-14 * A land purchase of $2.4m was made which was not provided for in the LTP |  |
| Good Financial Housekeeping   * Current year and previous year’s financial results | In 2012-13 Council posted a surplus of $0.9m compared to a budgeted surplus of $0.3m.  In 2011-12 Council posted a surplus of $1.3m compared to a budgeted surplus of $1.7m. |  |
| Good Financial Housekeeping   * Predicted surpluses/deficits 2012- 2022 * Predicted operational expenditure (opex) 2012-22 | Over the 10 years of Council’s LTP, a collective surplus of $4.1m is predicted. This is average of $400k per year. No deficits are predicted for any of the 10 years  Over the period of the LTP opex is expected to increase 31%. The predicted year on year increases are lower than the nationwide council average of 4% per year. The early years of the LTP show a slightly higher increase (4-5%) compared to later years. |  |
| Investment in financial, forestry and commercial property assets (30/6/13) | $4.0m |  |
| Investment in physical assets (30/6/13) | $159m |  |
| Predicted investment in assets – “Asset Sustainability Ratio” | Over the LTP period predicted asset renewals total $37m, compared with forecast depreciation expense of $39.4m. The renewals/depreciation percentage is therefore 94% which is much better than the national Council average of 75%. |  |
| Funding Predictions   * Rates * ‘Revenue at risk’ | Total rates are predicted to rise about 38% over the LTP period. This predicted increase is below the year on year national average (5%).    Revenue at risk has been assumed as revenue streams which are more susceptible to economic downturns, variability and central government funding caps (e.g. NZTA road subsidies). The following table outlines the situation at CDC;   |  |  |  | | --- | --- | --- | | *Revenue Stream* | *% of Total CDC Revenue 2012-22* | *Indicator of vulnerability (% of total revenue)* | | Grants and Subsidies | 11% | >20% | | Development Contributions | 2% | >10% | | Investment Income | 3% | No indicator | | Other Income | 14% | >30% | | Rates | 70% | No indicator |   Rates are a very high proportion of total revenue. |  |
| Borrowing and ability to service borrowing;   * Debt predictions 2012-22 * Ability to service debt | CDC’s debt at 30 June 2012 was $4.3m but is set to rise steadily to $12m by 2017 before levelling off to $11m for the remainder of the LTP period  Our benchmark for debt increases is debt at the end of the LTP period more than 30% above debt at the start of the period. CDC’s debt at the end of the LTP period is predicted to be 156% greater than the start of the LTP period.  Council’s Annual Plan for 2013-14 indicates that debt at 30 June 2014 will be slightly more than that noted in the LTP for the equivalent period ( $10.5m versus $10,3m)  CDC is comfortably able to service the predicted debt over the LTP period. Our measure of debt serviceability is the quantum of expected loan interest as a percentage of net cash flows from operations (after adding back loan interest). Our indicative benchmark is 20%. CDC’s average percentage over the ten years is 6%.  CDC has assumed the average of interest rates on external debt in the LTP period ranging from 6.5% to 7%%. Overall this is moderately higher than the nationwide average of 5.9%. |  |
| Identification of major projects or issues | Major projects are identified in the pre-election report include;   * CBD revitalisation - $213k in 2015 * Sewerage works - $1.4m in 2014 |  |
| Disclosure of specific expenditure items for 2012-13 (from 2012-13 annual report) | Elected Member Remuneration (including Mayor); $184k  CEO remuneration; $193k  Audit Fees; Annual Audit (2012) -$77k (2013 not found)  LTP audit (2012) -$59k |  |
| Statement of Service Performance (SSP) information from the 2013 Annual Report | The SSP information from CDC’s 2013 Annual Report discloses a total of 45 measures and targets. Of these 10 were either not applicable or not relevant for the year leaving a remaining total of 35 measures. Targets were met on 20 of these measures (57%), with 15 not met (43%).  In the 2012 report there were many more measures – a total of 86 of which 60 targets were met – a ‘targets met’ rate of 70%.  The targets not achieved included compliance with resource consents from the Regional Council and missing of target response times for repair and maintenance of infrastructure networks. |  |
| **Summary** | From the public accountability documents it is observed;   * Carterton’s financial outturn in the last two years has been sound * Relatively small surpluses are predicted for the ten years to 2022 – an average of $400k a year * Predicted rate rise over the ten years are below the national average for Councils; rates are a high proportion of overall revenue * Predicted operating expenditure rises to 2022 are also below the national average * Debt is forecast to increase steadily until 2017 and then levels off; Council is well able to service the debt * Council has a very modest quantum of financial assets * Council also has a small value of physical assets when compared to most other councils; however it is re-investing in its assets at a high level compared to the national average * Service performance information indicated issues with compliance to consents and maintenance response times. |  |

**Hutt City Council (HCC) – Overview**

|  |  |  |
| --- | --- | --- |
| ***Aspect Reviewed*** | ***Comments*** | ***Indicator*** |
| HCC’s Financial Strategy in the 2012- 22 LTP | The major elements of HCC’s financial strategy are;   * Predicted rates are “competitive” in comparison with similar councils; rates increases are aimed at not more than CPI plus growth * Costs are below the average of peer councils * Council expect the proportion of revenue from fees and charges to increase from 21% to 26% * “Net” debt is targeted to be under $45m by 2015 |  |
| Pre-election report update | The pre election report by the CEO cites the following major projects and estimated costs in the short to mid-term;   * Community facilities - $13.9m * Town and Horticultural Hall - $10.2m * Landfill - $5.5m * Stormwater projects - $6m |  |
| Good Financial Housekeeping   * Current year and previous year’s financial results | In 2012-13 Council showed a surplus of $1.6m compared to a budgeted surplus of $1.4m.  In 2011-12 Council incurred a deficit of $1.6m compared to a budgeted surplus of $1.7m |  |
| Good Financial Housekeeping   * Predicted surpluses/deficits 2012- 2022 * Predicted operational expenditure (opex) 2012-22 | Over the 10 years of Council’s LTP, a collective surplus of $81.6m is predicted. The surpluses predicted in the early years of the LTP period are lower than the later years. The 2013-14 Annual Plan has shown 10 year re-forecasts with deficits now expected in 2013-14 ($3.3m) and 2014-15 ($0.7M) with collective surpluses of $59m for the 10 years to 2023.  Over the period of the LTP opex is expected to increase 25%. The predicted year on year increases are significantly lower than the nationwide council average of 4% per year. |  |
| Investment in financial, forestry and commercial property assets (30/6/13) | $29.6m |  |
| Investment in physical assets (30/6/13) | $1,313m |  |
| Predicted investment in assets – “Asset Sustainability Ratio” | Over the LTP period predicted asset renewals total $232m, compared with forecast depreciation expense of $350m. The renewals/depreciation percentage is therefore 66% which is below the national Council average of 75%. |  |
| Funding Predictions   * Rates * ‘Revenue at risk’ | Total rates are predicted to rise about 34% over the LTP period. This predicted increase is below the year on year national average (5%).    Revenue at risk has been assumed as revenue streams which are more susceptible to economic downturns, variability and central government funding caps (e.g. NZTA road subsidies). The following table outlines the situation at HCC;   |  |  |  | | --- | --- | --- | | *Revenue Stream* | *% of Total HCC Revenue 2012-22* | *Indicator of vulnerability (% of total revenue)* | | Grants and Subsidies | 9% | >20% | | Development Contributions | <1% | >10% | | Investment Income | <1% | No indicator | | Other Income | 24% | >30% | | Rates (other than water) | 66% | No indicator |   Water rates are included in other income. Council wants to have a higher proportion of income from non-rates streams – the aim is 26% over a number of years. |  |
| Borrowing and ability to service borrowing;   * Debt predictions 2012-22 * Ability to service debt | HCC’s debt at 30 June 2012 was $77m. The 2012-22 LTP indicates debt is set to fall to $53m in 2015 before rising to $72m in 2017. Thereafter the debt is less (though with some variability) before settling at $56m by 2022.  HCC’s 2013-14 Annual Plan shows a reforecast of debt for the 10 years to 2023. The Plan shows debt increasing to nearly $100m in 2017 and 2018 before settling back to $77.6m by 2022.  Our benchmark for debt increases is debt at the end of the LTP period more than 30% above debt at the start of the period. HCC’s debt at the end of the LTP period is expected to around the same as the start of the LTP period.  HCC is able to service the predicted debt over the LTP period. Our measure of debt serviceability is the quantum of expected loan interest as a percentage of net cash flows from operations (after adding back loan interest). Our indicative benchmark is 20%. HCC’s average percentage, using the updated 2013 forecasts, is 11%.  HCC has assumed the average of interest rates on external debt in the LTP period at around 5.6%. Overall this is slightly lower than the nationwide average of 5.9%. |  |
| Identification of major projects or issues | Major projects are identified in the pre-election report. |  |
| Disclosure of specific expenditure items for 2012-13 (from 2012-13 annual report) | Elected Member Remuneration (including Mayor); $697k  CEO remuneration; $344k  Audit Fees; Annual Audit -$153k  LTP audit (2012) -$88k |  |
| Statement of Service Performance (SSP) information from the 2013 Annual Report | The SSP information from HCC’s 2013 Annual Report discloses a total of 84 measures and targets. Hutt City has a very high reported rate of ‘targets met’ at 87% (73 out of 84 targets). There are a relatively high number of residents’ satisfaction measures and targets.  The 2012 Annual Report targets met rate was similar (86%). |  |
| **Summary** | From the public accountability documents it is observed;   * Hutt’s financial outturn has shown a surplus in 2013 but a deficit in the previous year, and with predicted deficits in 2014 and 2015. * Predicted rates and operational expense increases are below the national average * Predicted debt levels have been revised upwards since the 2012-22 LTP and now show debt peaking at nearly $100m in 2017 before settling at $77m by 2022. Council is able to service the debt. * Council has a modest quantum of financial assets * Council is reinvesting in its extensive asset base at a rate slightly below the national council average * Council’s service performance indicates a high level of ‘targets met’. Measures have a high proportion of resident survey results. |  |

**Kapiti District Council (KDC) – Overview**

|  |  |  |
| --- | --- | --- |
| ***Aspect Reviewed*** | ***Comments*** | ***Indicator*** |
| KDC’s Financial Strategy in the 2012- 22 LTP | KDC is unique in that it produces a 20 year financial strategy rather than a 10 year strategy. While this is commendable part of the reason for this may be that the second half of the strategy paints a better picture than the first 10 years. The major elements of KDC’s financial strategy are;   * Reduced operating budgets * Deferral of approximately $50m capital expenditure over the first 10 years * Aggressive debt repayment from 2016-17 * Introduction of water meters in order to defer the need for $36m capital investment * Non funding of depreciation on longer life assets. There is net $19m depreciation not funded in the ten years to 2022, but this is reversed in the second ten year period. KDC maintain the funding is still at a level to fund asset renewals * High proportion of rates revenue compared to other revenue sources. |  |
| Pre-election report update | The pre election report by the CEO cites the following features;   * Net debt at 30 June 2013 less than predicted in the LTP as projects capital expenditure has experienced delays * The 2013-14 rates increase was 5.15%. Rates comprise 77% of total revenue * There is the risk that the growth in the rates base will not be achieved * Several of debt prudential limits are running close. Council wants to increase the value of land under roads to ensure the net debt to equity ratio is satisfied. |  |
| Good Financial Housekeeping   * Current year and previous year’s financial results | In 2012-13 Council posted a surplus of $5.2m compared to a budgeted surplus of $0.3m. The surplus was mostly due to an unrealized gain on revaluation of financial instruments of $4.2m  In 2011-12 Council incurred a deficit of $3.2m |  |
| Good Financial Housekeeping   * Predicted surpluses/deficits 2012- 2022 * Predicted operational expenditure (opex) 2012-22 | Over the 10 years of Council’s LTP, a collective surplus of $103m is predicted. Closer examination shows that the collective surplus in the first five years is only $2.5m, and the collective surplus for the ensuing five years is $100m. The latter figure is bolstered by expected vested assets of $60m in 2020.  Over the period of the LTP opex is expected to increase 49%. The year on year increases appear to be above the average council nationwide increase of 4% a year. |  |
| Investment in financial, forestry and commercial property assets (30/6/13)) | $12.3m |  |
| Investment in physical assets (30/6/13) | $859m |  |
| Predicted investment in assets – “Asset Sustainability Ratio” | Over the LTP period predicted asset renewals total $128m, compared with forecast depreciation expense of $170m. The renewals/depreciation percentage is therefore 75% which exactly matches the national Council average. |  |
| Funding Predictions   * Rates * ‘Revenue at risk’ | Total rates are predicted to rise about 75% over the LTP period. The predicted increase is much greater than the year on year national average (5%) though growth may account for some of the rise.  Revenue at risk has been assumed as revenue streams which are more susceptible to economic downturns, variability and central government funding caps (e.g. NZTA road subsidies). The following table outlines the situation at KDC;   |  |  |  | | --- | --- | --- | | *Revenue Stream* | *% of Total KDC Revenue 2012-22* | *Indicator of vulnerability (% of total revenue)* | | Grants and Subsidies | 2% | >20% | | Development Contributions | 3% | >10% | | Investment Income | Not identified | No indicator | | Other Income | 34% | >30% | | Rates (other than water) | 61% | No indicator |   Other income includes targeted rates for water 11% of total revenue) and vested assets of $60m in 2010 (6.7% of total revenue). |  |
| Borrowing and ability to service borrowing;   * Debt predictions 2012-22 * Ability to service debt | KDC’s debt at 30 June 2012 was $88.4m but rises steadily in the LTP period to around $190m in 2019 and plateaus at that level until 2022.  Our benchmark for debt increases is debt at the end of the LTP period more than 30% above debt at the start of the period. KDC’s debt increases during the LTP by 113%. In the 20 year financial strategy the debt reduces to $77m by 2032.  Council’s Annual Plan for 2013-14 indicates debt at 30 June 2014 will be very close to that noted in the LTP for the equivalent period.  KDC is able to service the predicted debt over the LTP period but the debt servicing costs are high. Our measure of debt serviceability is the quantum of expected loan interest as a percentage of net cash flows from operations (after adding back loan interest). Our indicative benchmark is 20%. KDC’s average percentage over the ten years is 38%, and ranges from 33%- 43%  KDC has assumed the average of interest rates on external debt in the LTP period as increasing from 5.5% in year 1 to 7% for the remainder of the LTP period. This is above the nationwide average of 5.9%. |  |
| Identification of major projects or issues | Major projects identified in the pre-election report include;   * Aquatic Centre $21m * Water Meter project $8.4m * Civic building upgrade and refurbishment $9.3m * Waikanae Library $8.2m (2015-16) * Various land purchases |  |
| Disclosure of specific expenditure items for 2012-13 (from 2012-13 annual report) | Elected Member Remuneration (including Mayor);$515k  CEO remuneration; $285k  Audit Fees; Annual Audit -$148k  LTP audit (2012) -$117k |  |
| Statement of Service Performance (SSP) information from the 2013 Annual Report | The SSP information from KDC’s 2013 Annual Report discloses a total of 102 service targets and measures. Of these 78 had been successfully achieved giving a ‘targets met’ rate of 76%.  18 targets were not met (18%). Significant “not achieved’ included higher road maintenance costs than the council peer group average, and maintenance response times not met. Also only 80% of resource consent applications were processed in the statutory timeframes.  The remaining 6 measures were noted as Not Relevant. |  |
| **Summary** | From the public accountability documents it is observed;   * Kapiti’s 20 year financial strategy paints a tight financial situation in the 10 years to 2022, but a brighter financial situation by 2032. * The quantum of Council’s expected surpluses in the early years of the LTP is small ($2.5m). Later years forecast surpluses are bolstered by vested asset revenue of $60m. * Council has a reasonably large portfolio of physical assets; planned renewals compared to depreciation over the ten years to 2022 sits at the national average * Council has a modest quantum of financial assets for a council of this size * Council’s debt is forecast to more than double in the 10 years to 2022. Council is able to service the debt, but servicing costs will absorb $119m over the ten years * Service performance information indicates a ‘three quarters target met rate. |  |

**Masterton District Council (MDC) – Overview**

|  |  |  |
| --- | --- | --- |
| ***Aspect Reviewed*** | ***Comments*** | ***Indicator*** |
| MDC’s Financial Strategy in the 2012- 22 LTP | The major elements of MDC’s financial strategy are;   * Being prudent with an affordable, balance budget over the 10 years * To look after infrastructure and assets with Asset Management Plans being a basis for renewals * Spreading the costs of assets over their useful lives * Aim to increase rates at no more than the BERL rate plus 1% * Debt increase from $14m in 2009 to about $50m; the level of debt will get close to policy limits in years 2016-20 * Potential for roading assets level of service to decline |  |
| Pre-election report update | The pre election report by the CEO cites the following features;   * Good progress on a number of large infrastructure projects * Council has stayed within its financial prudential limits * Water renewals of $7m planned in the next 4 years * Main objective is for Council to “maintain service delivery while ensuring financial sustainability”. |  |
| Good Financial Housekeeping   * Current year and previous 2 years financial results | In 2012-13 Council incurred a deficit of $2.1m in comparison with a very small budgeted surplus of $0.1m. Losses on disposals of old infrastructure assets were the main reasons for the deficit. Had this not occurred Council would have posted a surplus.  In 2011-12 Council posted a surplus of $0.6m against a budget surplus of $1.45m. The shortfall was again due to asset write-downs. |  |
| Good Financial Housekeeping   * Predicted surpluses/deficits 2012- 2022 * Predicted operational expenditure (opex) 2012-22 | Over the 10 years of Council’s LTP, a collective surplus of $8m is predicted. No deficits are predicted. However the surpluses in most years are miniscule and the one year with a higher surplus ($3.3m in 2019-20) is based on receiving higher than normal government grants.  Over the period of the LTP opex is expected to increase 28%. The year on year increases are below the average nationwide increase of 4% year on year with the exception of 2017-18 (4.3%). |  |
| Investment in financial, forestry and commercial property assets (30/6/13) | $19.2m |  |
| Investment in physical assets (30/6/13) | $698m |  |
| Predicted investment in assets – “Asset Sustainability Ratio” | Over the LTP period predicted asset renewals total $89m, compared with forecast depreciation of $114m. The renewals/depreciation percentage is therefore 78%. The national Council average is 75%. MDC’s ratio is slightly better than the average. |  |
| Funding Predictions   * Rates * ‘Revenue at risk’ | From the LTP total rates are predicted to rise on average about 3.4% per year which is less than the year on year national average (5%) and is consistent with the LTP financial strategy.  Revenue at risk has been assumed as revenue streams which are more susceptible to economic downturns, variability and central government funding caps (e.g. NZTA road subsidies). The following table outlines the situation at MDC;   |  |  |  | | --- | --- | --- | | *Revenue Stream* | *% of Total MDC Revenue 2012-22* | *Indicator of vulnerability (% of total revenue)* | | Grants and Subsidies | 11% | >20% | | Development Contributions | 1% | >10% | | Other Income | 20% | >30% | | Rates (excluding metered water) | 68% | No indicator | |  |
| Borrowing and ability to service borrowing;   * Debt predictions 2012-22 * Ability to service debt | MDC’s debt at 30 June 2012 was $42m but rises early in the LTP period to around $50m in 2013 and thence to $63m by 2017 before reducing to $54m at June 2022.  Our benchmark for debt increases is debt at the end of the LTP period more than 30% above debt at the start of the period. MDC’s debt increases during the LTP by around 50% but is expected to return to 2013 levels by 2022.  Council’s Annual Report for 2012-13 notes that the debt at June 2013 is $2m less than forecast ($50m cf $52m) because of project delays affecting the timing of loan uptake  MDC is able to service the predicted debt over the LTP period. Our measure of debt serviceability is the quantum of expected loan interest as a percentage of net cash flows from operations (after adding back loan interest). Our indicative benchmark is 20%. MDC’s percentage range over the ten years ranges from 12% to 16%.  MDC has assumed the average of interest rates on external debt in the LTP period as 6.5%. This is above the nationwide average of 5.9%. |  |
| Identification of major projects or issues | * Completion of Homebush wastewater scheme (which has been subject to legal dispute) * $7m of water renewals in next four years * Identification of earthquake-prone buildings |  |
| Disclosure of specific expenditure items for 2012-13 (from 2012-13 annual report) | Elected Member Remuneration (including Mayor);$314k  CEO remuneration; $190k  Audit Fees; Annual Audit -$99k  LTP audit (2012) -$72k |  |
| Statement of Service Performance (SSP) information from the 2013 Annual Report | The SSP information from MDC’s 2013 Annual Report discloses a total of 98 service targets and measures. Many measures (21) were ‘Not Applicable’ as they related to satisfaction surveys which were not scheduled for 2012-13.Of the applicable measures 59 targets had been successfully reached giving a ‘targets met’ rate of 77%.  The 2012 Annual Report had many more measures (140) of which 115 were achieved, giving a ‘targets met’ rate of 82% |  |
| **Summary** | From the public accountability documents it is observed;   * Masterton DC is in a sound financial position. While there has been a deficit in 2013 and a miniscule surplus in 2012, these have arisen from one-off losses on asset disposals * The quantum of Council’s expected surpluses in the LTP period is very small * Council has a significant portfolio of physical assets and is planning to re-invest in them over the LTP period, at slightly above the nationwide average. * Council has a moderate quantum of financial assets for a council of this size * Council’s debt is set to rise significantly but trims back at the end of the 10 year period; Council is able to service debt. * Service performance information is generally well presented |  |

**Porirua City Council (PCC) – Overview**

|  |  |  |
| --- | --- | --- |
| ***Aspect Reviewed*** | ***Comments*** | ***Indicator*** |
| PCC’s Financial Strategy in the 2012- 22 LTP | The major elements of PCC’s financial strategy are;   * Intergenerational equity * Prudent budget with manageable debt levels * Prioritising infrastructure investment expenditure to ensure assets are maintained |  |
| Pre-election report update | The pre election report by the CEO cites the following features;   * Estimated expenditure on new local roads to link with Transmission Gully Highway is $35m in the years 2014-17 * City centre revitalization project cost estimated at $11.5m * Maintenance on the Council’s building assets had been anticipated at a “basic” level in the 2012-22 LTP but subsequently $1.5m identified as needed for remedial work over the next three years * Capacity Ltd will take over aspects of Council’s Water and Wastewater management * An independent review has been commissioned to examine Council’s expenditure |  |
| Good Financial Housekeeping   * Current year and previous year’s financial results | In 2012-13 Council posted a surplus of $1.6m compared to a budgeted deficit of $3.4m. While this appears good on the face of it, the surplus was mainly brought about by assets vested to Council of $3.7m. Vested assets are non cash items. Council noted that Fees and charges had dropped 7% in the year.  In 2011-12 Council incurred a deficit of $3.1m |  |
| Good Financial Housekeeping   * Predicted surpluses/deficits 2012- 2022 * Predicted operational expenditure (opex) 2012-22 | Over the 10 years of Council’s LTP, a collective surplus of $29.5m is predicted. Further analysis shows that the forecast surplus is bolstered by vested asset revenue ($21m) and additional subsidies of  $15m in 2018-19. In the four years to 2015-16 there is a collective deficit of $10.3m.  Over the period of the LTP opex is expected to increase 36%. The year on year increases are around the average nationwide increase of 4% a year. |  |
| Investment in financial, forestry and commercial property assets (30/6/13) | $25.7m |  |
| Investment in physical assets (30/6/13) | $1,135m |  |
| Predicted investment in assets – “Asset Sustainability Ratio” | Over the LTP period predicted asset renewals total $101m, compared with forecast depreciation expense of $230m. The renewals/depreciation percentage is therefore 44%. The national Council average is 75%.  PCC’s ratio is well below the national average and is the lowest ratio compared to other territorial councils in the Wellington region. While Council’s assets may have a younger age profile than most other councils the ratio suggests that, at some point in the long term, renewals will need to increase significantly. |  |
| Funding Predictions   * Rates * ‘Revenue at risk’ | Total rates are predicted to rise about 41% over the LTP period. This is less than the year on year national average (5%).  Revenue at risk has been assumed as revenue streams which are more susceptible to economic downturns, variability and central government funding caps (e.g. NZTA road subsidies). The following table outlines the situation at PCC;   |  |  |  | | --- | --- | --- | | *Revenue Stream* | *% of Total PCC Revenue 2012-22* | *Indicator of vulnerability (% of total revenue)* | | Grants and Subsidies | 6% | >20% | | Development Contributions | 2% | >10% | | Investment Income | 2% | No indicator | | Other Income | 30% | >30% | | Rates | 60% | No indicator |   Other income includes targeted rates for water. |  |
| Borrowing and ability to service borrowing;   * Debt predictions 2012-22 * Ability to service debt | PCC’s debt at 30 June 2012 was $48.8m but rises steadily in the LTP period to around $77m in 2019 before reducing to $53m at June 2022.  Our benchmark for debt increases is debt at the end of the LTP period more than 30% above debt at the start of the period. PCC’s debt increases during the LTP by around 57% but is expected to almost return to 2013 levels by 2022.  Council’s Annual Plan for 2013-14 indicates that debt at 30 June 2014 will be similar to that noted in the LTP for the equivalent period ($60m)  PCC is able to service the predicted debt over the LTP period. Our measure of debt serviceability is the quantum of expected loan interest as a percentage of net cash flows from operations (after adding back loan interest). Our indicative benchmark is 20%. PCC’s average percentage range over the ten years is 14%, although in 2013-14 it touches 19%  PCC has assumed the average of interest rates on external debt in the LTP period as increasing from 4.1% to 6.8% from year 5 of the LTP%. In weighted terms this approximates the nationwide average of 5.9%. |  |
| Identification of major projects or issues | Refer to Pre-election report section above |  |
| Disclosure of specific expenditure items for 2012-13 (from 2012-13 annual report) | Elected Member Remuneration (including Mayor); $513k  CEO remuneration; $312k  Audit Fees; Annual Audit -$181k  LTP audit (2012) -$121k |  |
| Statement of Service Performance (SSP) information from the 2013 Annual Report | The SSP information from PCC’s 2013 Annual Report discloses a total of approximately 77 service targets and measures. Of these 49 targets had been successfully achieved giving a ‘targets met’ rate of 64%.  Targets not met totalled 19 (25%). Maintenance request targets in transport and the three water networks were often not achieved. Additionally it was noted that there were comparatively few measures in the infrastructure activities compared to many other activities of Council.  The remaining 9 measures were noted as Not Applicable. |  |
| **Summary** | From the public accountability documents it is observed;   * Porirua City is forecasting deficits for the first 4 years of the LTP period * The quantum of Council’s expected surpluses over the entire LTP period($29m) is bolstered by anticipated subsidies and vested assets * Council has a large portfolio of physical assets but planned renewals over the 10 year period is less than half of the depreciation expense * Council has a moderate quantum of financial assets for a council of this size * Council’s debt is set to rise significantly but reduces at the end of the 10 year period; Council is able to service debt. * Service performance information indicates a ‘two-thirds’ target met rate but there are comparatively few measures in key infrastructure activities |  |

**South Wairarapa District Council (SWDC) – Overview**

|  |  |  |
| --- | --- | --- |
| ***Aspect Reviewed*** | ***Comments*** | ***Indicator*** |
| SWDC’s Financial Strategy in the 2012- 22 LTP | The major elements of SWDC’s financial strategy states;   * The District has a small population ( 9300) with no growth and an ageing population profile leading to a small rating base * That two-thirds of revenue is from rates with few alternative revenue sources * Rates will be kept to within the BERL cost movement plus 2% * Debt is being raised generally for new assets; debt is forecast to increase * A balanced budget with consistent surpluses and cash reserves * That existing levels of service are maintained |  |
| Pre-election report update | The short pre election report by the CEO notes;   * Wastewater resource consents for three towns is due to be finalized late 2013 * Expected wastewater capital expenditure is $3.2m in the next three years * Water projects are set to cost $1.7m in the next three years. |  |
| Good Financial Housekeeping   * Current year and previous year’s financial results | In 2012-13 Council posted a surplus of $2.0m compared to a budgeted surplus of $0.3m. The surplus mainly came about through upward revaluation of investment properties ($1.5m)  In 2011-12 Council posted a surplus of $0.2m compared to a budgeted surplus of $1.7m. The shortfall was attributable to fees being down $300k, subsidies down $600k and bad debt expenses of $365k |  |
| Good Financial Housekeeping   * Predicted surpluses/deficits 2012- 2022 * Predicted operational expenditure (opex) 2012-22 | Over the 10 years of Council’s LTP, a collective surplus of $13.3m is predicted. No deficits are predicted for any of the 10 years but there are very small surpluses in early years and about $2m a year in later years.  Over the period of the LTP opex is expected to increase 26%. The predicted year on year increases are much lower than the nationwide council average of 4% per year. |  |
| Investment in financial, forestry and commercial property assets (30/6/13) | $16.5m |  |
| Investment in physical assets (30/6/13) | $386m |  |
| Predicted investment in assets – “Asset Sustainability Ratio” | Over the LTP period predicted asset renewals total $40m, compared with forecast depreciation expense of $46m. The renewals/depreciation percentage is therefore 87% which is better than the national Council average of 75%. |  |
| Funding Predictions   * Rates * ‘Revenue at risk’ | Total rates are predicted to rise about 38% over the LTP period. This predicted increase is below the year on year national average (5%).    Revenue at risk has been assumed as revenue streams which are more susceptible to economic downturns, variability and central government funding caps (e.g. NZTA road subsidies). The following table outlines the situation at SWDC;   |  |  |  | | --- | --- | --- | | *Revenue Stream* | *% of Total SWDC Revenue 2012-22* | *Indicator of vulnerability (% of total revenue)* | | Grants and Subsidies | 14% | >20% | | Development Contributions | 2% | >10% | | Investment Income | 8% | No indicator | | Other Income | 8% | >30% | | Rates | 69% | No indicator |   Rates are a high proportion of total revenue and other income is low (as noted in Council’s LTP) |  |
| Borrowing and ability to service borrowing;   * Debt predictions 2012-22 * Ability to service debt | SWDC’s debt at 30 June 2012 was $9.3m but is set to rise steadily to nearly $17m by June 2022.    Our benchmark for debt increases is debt at the end of the LTP period more than 30% above debt at the start of the period. SWDC’s debt at the end of the LTP period is predicted to be 80% greater than the start of the LTP period, but does start from a low base.  The 2013 annual report shows the debt at 30 June 2013 as $9.3m (the same as the previous year). The LTP forecast for debt at 30 June 2013 was $10.1m.  SWDC is comfortably able to service the predicted debt over the LTP period. Our measure of debt serviceability is the quantum of expected loan interest as a percentage of net cash flows from operations (after adding back loan interest). Our indicative benchmark is 20%. SWDC’s average percentage over the ten years is 10% and ranges from 7% to 13% in the various LTP years.  SWDC has assumed the average of interest rates on external debt in the LTP period ranging from 4.82% to 6.78%. Overall this range is consistent with the nationwide average of 5.9%. |  |
| Identification of major projects or issues | Major projects are identified in the pre-election report noted above. |  |
| Disclosure of specific expenditure items for 2012-13 (from 2012-13 annual report) | Elected Member Remuneration (including Mayor); $195k  CEO remuneration; -$255k  Audit Fees; Annual Audit -$82.6k  LTP audit (2012) -$67k |  |
| Statement of Service Performance (SSP) information from the 2013 Annual Report | The SSP information from SWDC’s 2013 Annual Report discloses a total of 65 measures and targets. Of these 21 were either not applicable or not relevant for the year leaving a remaining total of 44 measures. Targets were met on 28 of these measures (64%), with 16 not met (36%).  In the 2012 report there were a total of 79 measures of which 53 targets were met – a ‘targets met’ rate of 67%. |  |
| **Summary** | From the public accountability documents it is observed;   * South Wairarapa’s financial outturn in the last two years has been sound, though the 2013 surplus has been boosted by investment revaluations * Council’s LTP forecasts composite surpluses of $13m for the ten year period 2012-22. No deficits are predicted in any year * Council relies heavily on rates; it is noted that the rates base is small and the district’s population growth is static and ageing * Council has reasonable financial assets for a Council of this size * Council is forecasting lower-than-average increases in operating expenditure and rates for the 10 years to 2022 * Council is reinvesting in its assets at a rate that is higher than the national average * Debt is set to increase substantially; debt servicing should be adequately accommodated * Service performance information is generally well set out with an average achievement rate. The challenge for Council will be to meet the conditions that might arise from the wastewater consents presently being finalised. |  |

**Upper Hutt City Council (UHCC) – Overview**

|  |  |  |
| --- | --- | --- |
| ***Aspect Reviewed*** | ***Comments*** | ***Indicator*** |
| UHCC’s Financial Strategy in the 2012- 22 LTP | The major elements of UHCC’s financial strategy are;   * Surpluses are achieved in the LTP period but there are deficits for some years * Although borrowing increases it remains within policy limits * Rates increases are at the “lower end” of NZ councils rates increases. The rates increase limit is the LGCI plus 2% * Council is not funding all depreciation * Council has good asset management and can “confidently” forecast renewals; renewals are higher in years 8-10 of the LTP |  |
| Pre-election report update | The pre election report by the CEO cites the following features;   * Council is keeping within its financial ratios and parameters * Large projects planned include work on Maidstone Park ($2m) and pipe renewals of $11m |  |
| Good Financial Housekeeping   * Current year and previous year’s financial results | In 2012-13 Council incurred a deficit of $2.9m compared to a budgeted deficit of $2.6m. Income from fees and charges was $0.9m below expectations.  In 2011-12 Council incurred a deficit of $4.3m compared to a budgeted deficit of $2.1m |  |
| Good Financial Housekeeping   * Predicted surpluses/deficits 2012- 2022 * Predicted operational expenditure (opex) 2012-22 | Over the 10 years of Council’s LTP, a collective deficit of $20.3m is predicted – an average of $2m each year. All but one year is predicted to be in deficit  Over the period of the LTP opex is expected to increase 38%. The year on year increases appear around the average council nationwide increase of 4% a year. Expenditure in 2013-14 is expected to rise 8%. |  |
| Investment in financial, forestry and commercial property assets (30/6/13) | $5.9m |  |
| Investment in physical assets (30/6/13) | $662m |  |
| Predicted investment in assets – “Asset Sustainability Ratio” | Over the LTP period predicted asset renewals total $74m, compared with forecast depreciation expense of $135m. The renewals/depreciation percentage is therefore 55% which is substantially below the national Council average of 75%. In other words, in the 10 years to 2022, the overall ‘consumption’ of Council assets is almost double the replacement rate. |  |
| Funding Predictions   * Rates * ‘Revenue at risk’ | Total rates are predicted to rise about 48% over the LTP period. This increase approximates the year on year national average (5%).    Revenue at risk has been assumed as revenue streams which are more susceptible to economic downturns, variability and central government funding caps (e.g. NZTA road subsidies). The following table outlines the situation at UHCC;   |  |  |  | | --- | --- | --- | | *Revenue Stream* | *% of Total UHCC Revenue 2012-22* | *Indicator of vulnerability (% of total revenue)* | | Grants and Subsidies | 7% | >20% | | Development Contributions | 1% | >10% | | Investment Income | 1% | No indicator | | Other Income | 18% | >30% | | Rates (other than water) | 73% | No indicator |   Rates income is a very high proportion of total revenue compared to most councils |  |
| Borrowing and ability to service borrowing;   * Debt predictions 2012-22 * Ability to service debt | UHCC’s debt at 30 June 2012 was $26m but rises steadily in the LTP period to $50m by 2022.  Our benchmark for debt increases is debt at the end of the LTP period more than 30% above debt at the start of the period. UHCC’s debt increases during the LTP by 93%.  Council’s Annual Plan for 2013-14 indicates that debt at 30 June 2014 will be $1.2m less than that noted in the LTP for the equivalent period.  UHCC is able to service the predicted debt over the LTP period. Our measure of debt serviceability is the quantum of expected loan interest as a percentage of net cash flows from operations (after adding back loan interest). Our indicative benchmark is 20%. UHCC’s average percentage over the ten years is 17%, and ranges from 14%-20%, so it is getting close to our benchmark.  UHCC has assumed the average of interest rates on external debt in the LTP period ranging from 5.9% to 6.5%. Overall this is slightly higher than the nationwide average of 5.9%. |  |
| Identification of major projects or issues | Major projects are identified in the pre-election report include; |  |
| Disclosure of specific expenditure items for 2012-13 (from 2012-13 annual report) | Elected Member Remuneration (including Mayor);$401k  CEO remuneration; $249k  Audit Fees; Annual Audit -$125k  LTP audit (2012) -$71k |  |
| Statement of Service Performance (SSP) information from the 2013 Annual Report | The SSP information from UHCC’s 2013 Annual Report discloses a total of 63 service targets and measures. These are split into residents satisfaction targets and other performance related targets.  There were 38 satisfaction targets of which 27 were achieved (71%) and 11(29%) not achieved. Council stated that the survey company had changed and the previous satisfaction figures were much better.  There were 25 other performance measures and targets, of which 22 were met for the year. |  |
| **Summary** | From the public accountability documents it is observed;   * Upper Hutt’s 2012 and 2013 financial performance has shown deficits (although the deficits were predicted) * For the 10 years to 2022, collective deficits of $20m are predicted * Council has very modest financial assets * Debt rises 93% over the 10 year period to 2022. Council is able to service the debt but the quantum of servicing is running close to our benchmark ratio. * Asset renewals run at 55% of Council’s depreciation expense over the 10 years, well below the national council average. * Council service performance information is well presented and indicates relatively high achievement against the targets set. |  |

**Wellington City Council (WCC) – Overview**

|  |  |  |
| --- | --- | --- |
| ***Aspect Reviewed*** | ***Comments*** | ***Indicator*** |
| WCC’s Financial Strategy in the 2012- 22 LTP | The major elements of WCC’s financial strategy are;   * Balanced budget * New assets financed by debt and replacement assets financed via depreciation * Yearly rate increase target is no more than CPI and the rates increase limit will be the LG cost index factors * Debt prudential limits are about $700m by 2022, but Council is targeting debt to be around $520m * For the LTP duration Council will decrease rate funded depreciation by $4m a year. Council point out that 5% of assets will therefore be in use longer than anticipated, though this will apply to non-critical assets |  |
| Pre-election report update | The short pre election report by the CEO notes;   * A flat local economy * Costs to earthquake strengthen Council buildings is estimated at $50m over 10 years * Council intend to rationalize computer systems (there are 120 different systems now) * Council’s investments are worth $385m (market value) against borrowing of $344m * Council scores well in comparison with the OAG’s benchmarks on stability, resilience and sustainability |  |
| Good Financial Housekeeping   * Current year and previous year’s financial results | In 2012-13 Council posted a surplus of $28.2m compared to a budgeted surplus of $37.4m. There were a number of reasons for the shortfall including increase in provisions for weathertight homes and increases in insurance costs.  In 2011-12 Council posted a surplus of $62.2m compared to a budgeted surplus of $51m.  It should also be noted that Council revenue includes capital grants from the government for the upgrade of social housing stock. The grants in 2012-13 were $28m and for 2011-12 were $48m. |  |
| Good Financial Housekeeping   * Predicted surpluses/deficits 2012- 2022 * Predicted operational expenditure (opex) 2012-22 | Over the 10 years of Council’s LTP, a collective surplus of $204m is predicted. No deficits are predicted for any of the 10 years. There are relatively high surpluses in the first 4 years, moderate surpluses in the next 3 years and small surpluses in the remaining 4 years of the LTP. The high surpluses for the first four years are the result of capital grants for upgrading the social housing stock.  Over the period of the LTP opex is expected to increase 31%. The predicted year on year increases are lower than the nationwide council average of 4% per year. However it is noted that budgeted opex for 2012-13 was $379m but the actual opex (from the 2012-13 Annual Report) was $418m, a difference of $39m. Unless there were a number of one-off factors in 2012-13, the opex forecasts in the LTP may be understated. |  |
| Investment in financial, forestry and commercial property assets (30/6/13) | $285.7m |  |
| Investment in physical assets (30/6/13) | $6,546m |  |
| Predicted investment in assets – “Asset Sustainability Ratio” | Over the LTP period predicted asset renewals total $975m, compared with forecast depreciation expense of $1,101m. The renewals/depreciation percentage is therefore 89% which is better than the national Council average of 75%. |  |
| Funding Predictions   * Rates * ‘Revenue at risk’ | Total rates are predicted to rise about 37% over the LTP period. This predicted increase is below the year on year national average (5%).    Revenue at risk has been assumed as revenue streams which are more susceptible to economic downturns, variability and central government funding caps (e.g. NZTA road subsidies). The following table outlines the situation at WCC;   |  |  |  | | --- | --- | --- | | *Revenue Stream* | *% of Total WCC Revenue 2012-22* | *Indicator of vulnerability (% of total revenue)* | | Grants and Subsidies | 7% | >20% | | Development Contributions | 1% | >10% | | Investment Income | 4% | No indicator | | Other Income (including meter water) | 28% | >30% | | Rates | 60% | No indicator | |  |
| Borrowing and ability to service borrowing;   * Debt predictions 2012-22 * Ability to service debt | WCC’s debt at 30 June 2012 was $362m but is set to rise steadily to $532m by June 2022.    Our benchmark for debt increases is debt at the end of the LTP period more than 30% above debt at the start of the period. WCC’s debt at the end of the LTP period is predicted to be 47% greater than the start of the LTP period.  The 2013 annual report shows the debt at 30 June 2013 as $388m whereas the LTP forecast for debt at 30 June 2013 was $374m.  WCC is able to service the predicted debt over the LTP period. Our measure of debt serviceability is the quantum of expected loan interest as a percentage of net cash flows from operations (after adding back loan interest). Our indicative benchmark is 20%. WCC’s average percentage over the ten years is near this benchmark at 17% and ranges from 14% to 19% in the various LTP years.  WCC has assumed the average of interest rates on external debt in the LTP period ranging from 6% to 6.75%. This range is above the nationwide average of 5.9%. |  |
| Identification of major projects or issues | The pre-election report identifies $586m capex in the four years 2014 -2017. Of this $203m (35%) are projects to improve the level of service and $367m (63%) represent projects to replace assets. |  |
| Disclosure of specific expenditure items for 2012-13 (from 2012-13 annual report) | Elected Member Remuneration (including Mayor); $1,467k  CEO remuneration; -$427k  Audit Fees; Annual Audit -$301k  LTP audit (2012) -$135k |  |
| Statement of Service Performance (SSP) information from the 2013 Annual Report | The SSP information from WCC’s 2013 Annual Report is very comprehensive and quite innovative when compared to other councils. Often there are ‘stretch’ targets which cannot be easily achieved.  An approximate count of measures shows 181 targets for 2013 of which 98 (54%) have been met and 83 (46%) not met. The main activities with high ‘not met’ targets are in waste management and transport. |  |
| **Summary** | From the public accountability documents it is observed;   * Wellington City’s financial position is sound. Its financial performance statements in the last two years show surpluses but these are boosted by capital grant revenue * The LTP forecast of financial outturns for the 10 years indicate a modest quantum of surpluses especially when the capital grant revenue for social housing stock is removed * Projected increases in rates and operating expenditure over the 10 years to 2022 are below the national average but a question remains on the sturdiness of the opex forecasts. * Council has extensive financial assets. * Council has a high value stock of physical assets and is planning to reinvest (through asset renewals) at a high rate * Council’s debt is rising steadily through the LTP period, Council is able to service the debt although the quantum of debt serving is getting close to our benchmark * Council’s service performance information is extensive and innovative. While the ‘targets met’ percentage appears to be lower than other councils at 54%, many of the targets are stretch targets |  |

**Wellington Regional Council (WRC) – Overview**

|  |  |  |
| --- | --- | --- |
| ***Aspect Reviewed*** | ***Comments*** | ***Indicator*** |
| WRC’s Financial Strategy in the 2012- 22 LTP | The major elements of WRC’s financial strategy are;   * For existing services Council keep average rate rises to the LG Cost Index; for new or additional services Council will keep average rate rises to 5.5% a year * Increase in water levy of between 3% -6% a year to fund water storage capacity projects * “Net debt” is projected to increase from $115m in 2012 to $275m by 2022 * Significant investment in public transport and flood protection * Council will not rate to fund depreciation |  |
| Pre-election report update | The short pre election report by the CEO notes;   * Rates are projected to increase 7.9% in 2014-15 * Expected public transport investment of around $209m in the next three years * Flood protection investment is set at $68m over the next nine years * Water Storage investment is predicted at $84m in the next 10 years. |  |
| Good Financial Housekeeping   * Current year and previous year’s financial results | In 2012-13 Council posted a surplus of $0.5m compared to a budgeted deficit of $11.8m. Operating expenditure was much lower than budgeted.  In 2011-12 Council incurred a deficit of $7.9m compared to budgeted deficit of $12.6m. Losses on financial instruments of $6m contributed to the deficit.  It should also be noted that Council revenue includes public transport capital and operational grants from NZTA and Council expenditure includes transport improvement expenditure. This tends to skew the financial results. |  |
| Good Financial Housekeeping   * Predicted surpluses/deficits 2012- 2022 * Predicted operational expenditure (opex) 2012-22 | Over the 10 years of Council’s LTP, a collective deficit of $38.9m is predicted. Again the Public Transport revenue and expenditure distort the picture. In the first three years of the LTP collective deficits are forecast because of the PT grants coming in and out. The last seven years of the LTP forecast a collective surplus of $41m.  Over the period of the LTP opex is expected to increase 38%. The predicted year on year increases approximate the nationwide council average of 4% per year. |  |
| Investment in financial, forestry and commercial property assets (30/6/13) | $163.3m |  |
| Investment in physical assets (30/6/13) | $827m |  |
| Predicted investment in assets – “Asset Sustainability Ratio” | Over the LTP period predicted asset renewals total $77m, compared with forecast depreciation expense of $179m. The renewals/depreciation percentage is therefore 43% which is very low compared to the national Council average of 75%. However it should be noted that a high proportion of Council’s assets are likely to have long lives, so they may not need renewal in the 2012-22 period. |  |
| Funding Predictions   * Rates * ‘Revenue at risk’ | Total rates are predicted to rise about 64% over the LTP period. This predicted increase is well above the year on year national average (5%).  Revenue at risk has been assumed as revenue streams which are more susceptible to economic downturns, variability and central government funding caps (e.g. NZTA road subsidies). The following table outlines the situation at WRC;   |  |  |  | | --- | --- | --- | | *Revenue Stream* | *% of Total WRC Revenue 2012-22* | *Indicator of vulnerability (% of total revenue)* | | Grants and Subsidies | 32% | >20% | | Development Contributions | NA | >10% | | Investment Income | 3% | No indicator | | Other Income | 21% | >30% | | Rates | 44% | No indicator |   WRC receive extensive PT grants. |  |
| Borrowing and ability to service borrowing;   * Debt predictions 2012-22 * Ability to service debt | WRC’s debt at 30 June 2012 was $128m but is set to rise rapidly to $387m by 2020 and then slightly falling to $375m by 2022.    Our benchmark for debt increases is debt at the end of the LTP period more than 30% above debt at the start of the period. WRC’s debt at the end of the LTP period is predicted to be 194% greater than the start of the LTP period.  The 2013 annual report shows the debt at 30 June 2013 as $169m whereas the LTP forecast for debt at 30 June 2013 was $182m.  Our measure of debt serviceability is the quantum of expected loan interest as a percentage of net cash flows from operations (after adding back loan interest). Our indicative benchmark is 20%. WRC’s average percentage over the ten years is 53%. Because of the PT payments WRC, in the first three years of the LTP, is actually showing net cash outflows from operations of $39m  WRC has assumed the average of interest rates on external debt in the LTP period at around 6.7%. This is above the nationwide average of 5.9%. |  |
| Identification of major projects or issues | This noted in the pre-election update section. |  |
| Disclosure of specific expenditure items for 2012-13 (from 2012-13 annual report) | Elected Member Remuneration (including Chair); $999k  CEO remuneration; -$327k  Audit Fees; Annual Audit -$192k  LTP audit (2012) -$133k |  |
| Statement of Service Performance (SSP) information from the 2013 Annual Report | The SSP information from WRC’s 2013 Annual Report is clear and concise.  There are 63 measures and targets for 2013 of which 53 (84%) have been met and 10 (16%) not met. |  |
| **Summary** | From the public accountability documents it is observed;   * Wellington Regional Council’s financial picture is dominated by the impact of public transport transactions. Under accounting rules the payments by council for new PT infrastructure has to be shown as operating expenditure as the PT assets will not be owned by Council. This makes it difficult to compare with other councils. * Because of the above the LTP forecast of financial outturns for the 10 years indicate high deficits for the first three years before surpluses are forecast. * Projected increases in rates are well above the national average * Council has extensive financial assets. * Council has a considerable stock of physical assets; the reinvestment rate for the 10 years to 2022 is below the nationwide council average * Council’s debt is rising rapidly over the next eight years; while debt can be serviced for the first few years of the LTP period there are net cash outflows from operations. * Council’s 2013 service performance information is well presented and concise. There is a high ‘targets met’ rate. |  |